

REPORT OF
FINANCIAL EXAMINATION

**AGC LIFE
INSURANCE COMPANY**

AS OF
December 31, 2003



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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August 19, 2004
Nashville, Tennessee

Honorable Alfred W. Gross, Commissioner
Bureau of Insurance
Commonwealth of Virginia
Chairperson, Financial Condition (E) Committee, NAIC

Honorable Sally McCarty, Commissioner
Indiana Department of Insurance
Secretary, Midwestern Zone, NAIC

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Lady and Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

AGC LIFE INSURANCE COMPANY

also referred to as the "Company." The Company's administrative office is at American General Center, Nashville, Tennessee, 37250, telephone number (615) 749-1000. This examination began on June 1, 2004, and concluded August 19, 2004.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of AGC Life Insurance Company was as of December 31, 2000, and was conducted by examiners from the state of Missouri, representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination covers the period from January 1, 2001, to December 31, 2003, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC. Reserves and related actuarial items were reviewed by the firm of Lewis & Ellis, Inc., Actuaries and Consultants, pursuant to a contract with the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring after December 31, 2003.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed.

The workpapers of the Company's independent auditors for 2003 were made available to the examiners. Standard examination procedures were modified as deemed appropriate under the circumstances.

Comments – Previous Examination

The previous examination report did not include any general comments or recommendations.

HISTORY

General

The Company was incorporated on September 1, 1982, under the laws of the State of Missouri as a life insurance company. The Company, a wholly owned subsidiary of American General Corporation, serves primarily as an intermediate holding company for most of the AIG/American General life insurance subsidiaries. American General Corporation and its subsidiaries, including the Company, were acquired by American International Group, Inc. on August 29, 2001.

Capital Stock

The Company is authorized to issue 250,000 shares of common capital stock with a par value of \$100 per share. As of December 31, 2003, 141,041 common capital shares were issued and outstanding resulting in a common capital stock balance of \$14,104,100.

Dividends

The Company has declared and paid dividends to the sole stockholder as follows:

	<u>Cash</u>	<u>Stock</u>
Through December 31, 2000	\$ 5,956,964,681	\$ -
2001	252,500,000	-
2002	372,400,000	-
2003	<u>730,237,873</u>	<u>-</u>
Total	<u>\$ 7,312,102,554</u>	<u>\$ -</u>

Management

The Board of Directors consists of ten members elected at an annual meeting of the stockholder as authorized by the Company's Bylaws. The directors elected and serving as of December 31, 2003, were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Merton B. Aidinoff New York, NY	Director, American International Group, Inc. and Retired Partner, Sullivan & Cromwell
Robert F. Herbert, Jr. Bellaire, TX	Senior Vice President, AGC Life Insurance Company
David L. Herzog St. Albans, MO	Chief Financial Officer, American International Group Life Operations
Rodney O. Martin, Jr. Houston, TX	Chairman of the Board, President and CEO, AGC Life Insurance Company
Nicholas A. O'Kulich Carmel, NY	Senior Vice President, American International Group, Inc.
Ernest T. Patrikis New York, NY	Senior Vice President and General Counsel, American International Group, Inc.
Gary D. Reddick Woodlands, TX	Chief Administrative Officer, AGC Life Insurance Company
Martin J. Sullivan Chappaqua, NY	Vice Chairman and Co-Chief Operating Officer, American International Group, Inc.
Christopher J. Swift Houston, TX	Executive Vice President and CFO, AGC Life Insurance Company
James W. Weakley Brentwood, TN	President and CEO, American General Life and Accident Insurance Company

Members of the Executive Committee as of December 31, 2003, were as follows:

Rodney O. Martin, Jr.
David L. Herzog
Gary D. Reddick

The officers elected and serving as of December 31, 2003, were as follows:

<u>Name</u>	<u>Office</u>
Rodney O. Martin, Jr.	Chairman of the Board, President and Chief Executive Officer
Christopher J. Swift	Executive Vice President and Chief Financial Officer
Gary D. Reddick	Chief Administrative Officer
Rick A. Borchert	Vice President and Actuary
Gregory A. Hayes	Senior Vice President and Treasurer
Charles K. Gibson	Vice President and Controller
Elizabeth M. Tuck	Secretary
Paul L. Mistretta	Executive Vice President
Robert M. Beuerlein	Senior Vice President
Robert F. Herbert, Jr.	Senior Vice President
Simon J. Leech	Senior Vice President
Rebecca G. Campbell	Senior Vice President
Kyle L. Jennings	Senior Vice President
Kent D. Major	Senior Vice President
Jeffrey H. Carlson	Senior Vice President
Althea R. Johnson	Senior Vice President
Steven E. Zimmerman	Senior Vice President
Glen D. Keller	Senior Vice President
Richard W. Scott	Vice President

Conflict of Interest

Conflict of Interest Disclosure Statements were executed annually by all directors and officers of the Company. A review of the statements for the years under examination indicated no material conflicts that had not previously been disclosed to the Board of Directors.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws of the Company. The Articles of Incorporation were not amended during the period being examined. The Bylaws were amended in November 2001 to conform to the Articles of Incorporation that stated the number of directors shall be nine persons. The Bylaws had previously provided for not fewer than nine and not more than twenty-one directors. On May 10, 2004, nine members were elected to the Board of Directors. Previously, the Board of Directors consisted of ten members.

The minutes of the meetings of the Stockholder and Board of Directors were also reviewed for the period under examination. The minutes appeared to properly document and approve applicable corporate events and transactions.

Acquisitions, Mergers, and Major Corporate Events

Acquisitions, mergers and major corporate events are described in “Business Combinations” in the Notes to the Financial Statements of the annual statement each year and therefore are not repeated here.

Surplus Debentures

The Company has three outstanding surplus notes payable to its parent, American General Corporation as follows:

<u>Date Issued</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount of Note</u>	<u>Accrued Interest</u>	<u>Annual Interest</u>
30-Dec-96	30-Dec-26	8.0%	\$ 1,450,000,000	\$ 322,222	\$ 116,000,000
25-Feb-98	25-Feb-28	7.5%	875,000,000	16,406,250	65,625,000
30-Jun-98	30-Jun-28	7.4%	188,000,000	3,478,000	13,912,000
			<u>\$ 2,513,000,000</u>	<u>\$ 20,206,472</u>	<u>\$ 195,537,000</u>

Proceeds from the issuance of the \$1.45 billion note were used to retire an \$804 million callable senior note payable to American General Corporation and to repay a \$646 million demand note also payable to American General Corporation.

Proceeds from the issuance of the \$875 million note were used as a part of the financing of the purchase of the remaining 54% interest in Western National Corporation.

Proceeds of the issuance of the \$188 million note were contributed to two lower tier subsidiaries, American General Annuity Insurance Company and The Variable Annuity Life Insurance Company.

The notes have the following repayment conditions and restrictions. Each payment of interest or principal may be made only with prior approval of the Director of the Missouri Department of Insurance and any such payment may only be made to the extent the Company has sufficient surplus earnings. Interest shall not accrue on any interest due but unpaid.

AFFILIATED COMPANIES

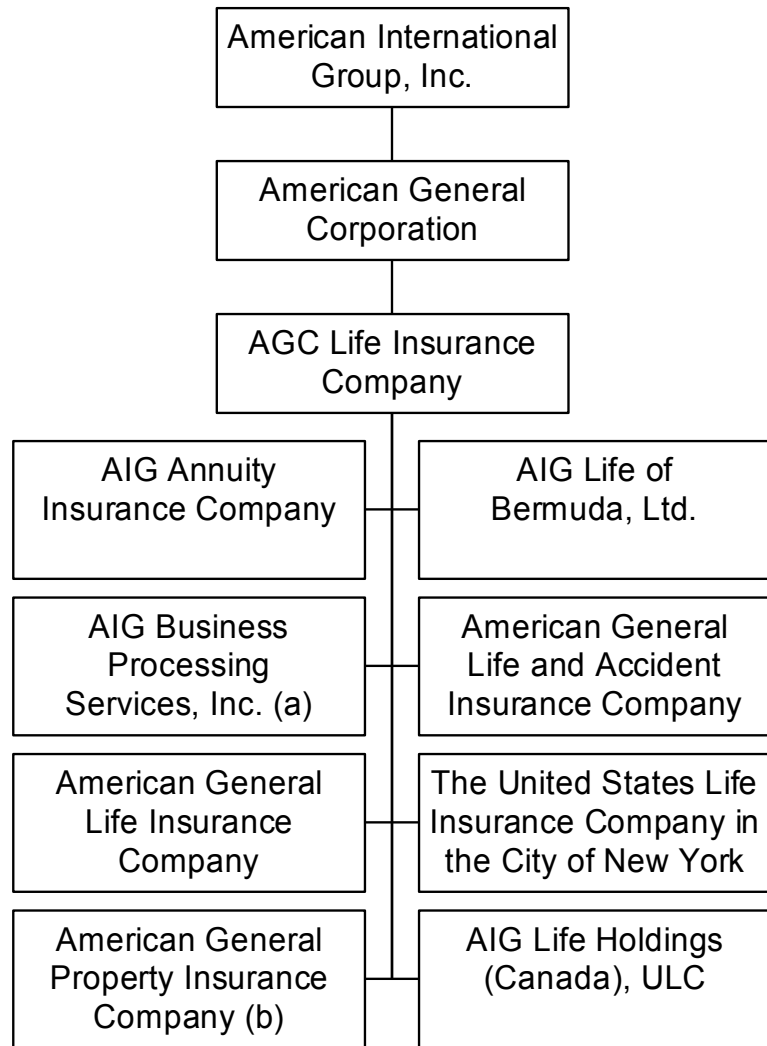
Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The ultimate controlling entity is American International Group, Inc., a publicly traded company with \$678 billion in assets and \$71 billion in shareholders' equity.

Organizational Chart

The following condensed organizational chart depicts the insurance holding company system as of December 31, 2003. The chart only includes the Company, its parents and its directly owned subsidiaries. A complete organizational chart is included in the Form B, Annual Registration Statement, filed with the Missouri Department of Insurance.

All subsidiaries are wholly owned except (a) the Company owns 60% of AIG Business Processing Services, Inc. and The Philippine American Life and General Insurance Company owns 40%, and (b) the Company owns 51.85% of American General Property Insurance Company and American General Life and Accident Insurance Company owns 48.15%.



Intercompany Transactions

Service and Expense Agreement

Effective January 1, 2002, the Company became a party to a Service and Expense Agreement originally effective February 1, 1974, under which American International Group, Inc. agreed to furnish or cause to be furnished at cost services and facilities required by the Company. Prior to January 1, 2002, the Company was a party to a similar agreement with American General Corporation. The Company paid \$420,000 annually for services received in 2001 to 2003.

Investment Advisory Agreement

Effective January 1, 2002, the Company agreed to the transfer by American General Investment Management, L.P. to AIG Global Investment Corp. of all its rights and all its obligations under the Advisory Agreement effective June 1, 1998. The advisory fees under the agreement are equal to .01 percent of the market value of assets managed. The Company paid fees of \$66,927, \$24,680 and \$21,597 in 2001 to 2003.

Federal Income Tax Allocation Agreement

American General Corporation and its subsidiaries including the Company were acquired by American International Group, Inc. on August 29, 2001. Prior to August 30, 2001, the Company joined in filing a consolidated federal income tax return with American General Corporation.

Effective August 30, 2001, the Company agreed to file a consolidated federal income tax return with its life insurance subsidiaries. The Company agrees to charge the subsidiaries a portion of the consolidated tax liability that would have been paid by each subsidiary had the subsidiary filed a separate federal income tax return. Subsidiaries are reimbursed for any tax benefits from net losses within ninety days after filing of the consolidated federal income tax return for the year in which the losses are used.

Guaranty of Qualified Assignments

In July 2001, the Company began guaranteeing all payments required in Qualified Assignments as they become due should American General Assignment Corporation of New York or American General Annuity Service Corporation fail to make such payments to the structured settlement plaintiff. American General Assignment Corporation of New York and American General Annuity Service Corporation (lower tier wholly owned subsidiaries of the Company) act as assignee with respect to qualified assignments of structured settlements as provided in Section 130(c) of the Internal Revenue Code of 1986. The structured settlement annuities are purchased from The Variable Annuity Life Insurance Company and American General Life Insurance Company, wholly owned subsidiaries of the Company.

FIDELITY BOND AND OTHER INSURANCE

The Company is insured under policies purchased by its parent, American International Group, Inc.

The Company is insured under a Financial Institution Bond Standard Form No. 25 with limits of \$145 million any one loss and a deductible of \$50,000 per loss. This coverage complies with the suggested minimum amount of fidelity insurance according to the NAIC guidelines.

The Company is also insured under the following coverages:

- Comprehensive General Liability
- Comprehensive Automobile Liability
- Workers' Compensation and
Employers Liability
- Umbrella Insurance
- Property and Boiler and Machinery
Insurance
- Directors and Officers Liability

The Company's parent and its subsidiaries are self insured for professional liability and maintain a formal self-funded program.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. Services are provided by employees of affiliated companies. The affiliates offer their employees benefits typical in the industry including paid sick leave, paid holidays, paid leave for jury duty, paid funeral leave, paid vacation, family leave, military duty leave, medical, dental and vision plans, health care and dependent reimbursement accounts, short-term and long-term disability, survivor benefits, retirement plan, 401(k) plan, supplemental incentive savings plan, stock purchase plan, adoption assistance, matching grant program, scholarship opportunities and tuition reimbursement.

Provision for the obligations under the above plans are included in the financial statements of the affiliates providing the services to the Company. The Company reimburses the affiliates under the pertinent cost sharing agreements.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2003, as reflected below, were sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Section 376.290 RSMo (Trust deposits).

<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Note	<u>\$ 2,000,000</u>	<u>\$ 2,263,365</u>	<u>\$ 2,105,671</u>

Deposits with Other States

The Company also has funds on deposit with South Carolina. Those funds on deposit as of December 31, 2003, were as follows:

<u>State</u>	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
South Carolina	US Treasury Notes	<u>\$ 130,000</u>	<u>\$ 129,117</u>	<u>\$ 124,854</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed in Missouri under Chapter 376 RSMo (Life and Accident Insurance) to write life, annuities, endowments and accident and health insurance. The Company is also licensed in Louisiana, Mississippi, Oklahoma, Pennsylvania, South Carolina and Tennessee.

The only direct business written by the Company is a group policy insuring approximately fifty agents of the Company's subsidiary, American General Life and Accident Insurance Company, in Missouri.

Policy Forms & Underwriting; Advertising & Sales Material and Treatment of Policyholders

The Missouri Department of Insurance has a Market Conduct staff that performs a review of these issues and generates a separate market conduct report.

REINSURANCE

General

Premiums reported during the period under examination were as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Direct	\$ (339,396)	\$ 3,785	\$ 2,337
Assumed	53,933,827	70,893,384	71,729,231
Ceded	<u>16,732,355</u>	<u>35,798,046</u>	<u>31,921,460</u>
Net Premiums	<u>\$36,862,076</u>	<u>\$35,099,123</u>	<u>\$39,810,108</u>

Assumed

The Company assumed, under two 100% quota share coinsurance agreements effective in 1993, individual single premium immediate annuities, individual ordinary life and group annuities on closed blocks of business from its wholly owned subsidiary, American General Life & Accident Insurance Company (AGLA).

In 2000, the Company assumed on a coinsurance/modified coinsurance basis universal life business from its wholly owned subsidiary, American General Life Insurance Company (AGLIC). Twenty percent of the mortality reserves and 100% of the deficiency reserves of business originally written by All American Life Insurance Company and Old Line Life Insurance Company were assumed.

The Company assumed A&H Insurance from RGA Reinsurance Company (RGA) under two retrocession agreements effective October 1, 1999. The Company assumed group disability income business written by American Fidelity Assurance Company on a coinsurance/modified coinsurance basis. The Company also assumed on a coinsurance basis with funds withheld, group credit disability business written by Union Security Life Insurance Company.

Ceded

Under a coinsurance/modified coinsurance treaty effective July 1, 2001, the Company retroceded to American General Life and Accident Insurance Company 48% of the group disability income business assumed from RGA Reinsurance Company.

Premiums and reserves for 2003 under the above treaties were as follows:

	<u>Treaty</u>	<u>Premiums</u>	<u>Reserves</u>	<u>Mod Coins Reserves</u>
Assumed				
Life				
	AGLA	\$ 415,108	\$ 31,608,891	\$ -
	AGLIC	5,538,336	42,684,741	27,456,507
	Other	<u>3,748</u>	<u>1,746</u>	<u>-</u>
		5,957,192	74,295,378	27,456,507
A&H				
	RGA	<u>65,772,039</u>	<u>36,744,800</u>	<u>21,244,097</u>
		71,729,231	111,040,178	48,700,604
Ceded				
Life				
	Other	570	1,746	-
A&H				
	AGLA	30,514,910	15,390,000	10,197,167
	Other	<u>1,405,980</u>	<u>-</u>	<u>-</u>
		<u>31,920,890</u>	<u>15,390,000</u>	<u>10,197,167</u>
		<u>31,921,460</u>	<u>15,391,746</u>	<u>10,197,167</u>
	Net	<u>\$ 39,807,771</u>	<u>\$ 95,648,432</u>	<u>\$ 38,503,437</u>

ACCOUNTS AND RECORDS

The Company's financial statements for 2001 were audited by Ernst & Young LLP, Certified Public Accountants. The Company's financial statements for 2002 and 2003 were audited by PricewaterhouseCoopers LLP, Certified Public Accountants. Reserves and related actuarial items as of December 31, 2003, were reviewed and certified by Rick A. Borchert, MAAA, Vice President and Valuation Actuary.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2003, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$ 351,244,093	\$ -	\$ 351,244,093
Preferred Stocks	8,500,000	-	8,500,000
Common Stocks	8,116,546,272	-	8,116,546,272
Mortgage Loans on Real Estate	249,725	-	249,725
Cash and Short Term Investments	7,631,788	-	7,631,788
Contract Loans	1,341,457	-	1,341,457
Receivable for Securities	132,500	-	132,500
Investment Income Due and Accrued	4,530,349	-	4,530,349
Uncollected Premiums and Agents' Balances in the Course of Collection	17,605,647	-	17,605,647
Deferred premiums, Agents' Balances and Installments Booked but Deferred	50,110	-	50,110
Other Amounts Receivable under Reinsurance Contracts	7,247,292	-	7,247,292
Net Deferred Tax Asset	10,443,213	9,456,588	986,625
Receivable from Affiliates	276,492	-	276,492
Interest Maintenance Reserve	69,907	69,907	-
Total	<u>\$ 8,525,868,845</u>	<u>\$ 9,526,495</u>	<u>\$ 8,516,342,350</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate Reserves for Life Policies and Contracts	\$ 74,306,921
Aggregate Reserves for Accident and Health Policies	21,354,800
Policy and Contract Claims - Life	1,132,205
Policy and Contract Claims - Accident and Health	5,021,075
Policyholders' Dividends and Coupons Due and Unpaid	2,076
Premiums and Annuity Considerations Received in Advance	3,428
Provision for Experience Rating Refunds	7,330,070
Other Amounts Payable on Reinsurance	2,931,737
Commissions and Expense Allowances Payable on Reinsurance Assumed	6,356,800
General Expenses Due or Accrued	60,782
Taxes, Licenses and Fees Due or Accrued	82,717
Federal and Foreign Income Taxes	45,062,681
Amounts Withheld or Retained by Company as Agent or Trustee	24
Borrowed Money and Interest Thereon	116,326,250
Asset Valuation Reserve	16,277,714
Payable to Parent, Subsidiaries and Affiliates	2,543
Deferred Gain on Subsidiaries Intercompany Reinsurance Agreements	681,675,871
Deferred Gain	27,547,885
Other	243
Total Liabilities	1,005,475,822
Common Capital Stock	14,104,100
Surplus Notes	2,533,206,472
Gross Paid In and Contributed Surplus	3,635,759,348
Unassigned Funds (surplus)	1,327,796,608
Total Surplus	7,510,866,528
Total	<u><u>\$ 8,516,342,350</u></u>

SUMMARY OF OPERATIONS

Premiums and Annuity Considerations	\$ 39,810,108
Net Investment Income	876,569,707
Amortization of Interest Maintenance Reserve	(15,041)
Commissions and Expense Allowances on Reinsurance Ceded	8,430,572
Miscellaneous Income	<u>252,078</u>
Total	925,047,424
Death Benefits	1,196,417
Annuity Benefits	2,885,721
Disability Benefits and Benefits Under Accident and Health Policies	21,451,907
Surrender Benefits and Other Fund Withdrawals	254,969
Increase in Aggregate Reserves for Life and Accident and Health Policies	<u>(4,021,666)</u>
Total	21,767,348
Commissions and Expense Allowances on Reinsurance Assumed	18,049,377
General Insurance Expenses	601,226
Insurance Taxes, Licenses and Fees	21,554
Increase in Loading and Cost of Collection in Excess of Loading	1,376
Reserve Adjustments and Asset Transfers	<u>6,222,782</u>
Total	46,663,663
Net Gain from Operations before Dividends and Federal Income Taxes	878,383,761
Dividends to Policyholders	6,100
Federal Income Taxes	<u>(74,352,190)</u>
Net Gain from Operations before Realized Capital Gains	952,729,851
Net Realized Capital Gains (Losses)	<u>1,812,516</u>
Net Income	<u><u>\$954,542,367</u></u>

CAPITAL AND SURPLUS ACCOUNT

Capital and Surplus, Beginning of Year	\$ 6,159,096,238
Net Income	954,542,367
Change in Net Unrealized Capital Gains or (Losses)	464,089,005
Change in Net Deferred Income Tax	(1,659,764)
Change in Non-Admitted Assets and Related Items	(2,767,960)
Change in Asset Valuation Reserve	1,763,982
Paid in	861,577,533
Dividend to Stockholder	(730,237,873)
Interest Expense on Surplus Notes	<u>(195,537,000)</u>
Net Change in Capital and Surplus for the Year	1,351,770,290
Capital and Surplus, End of Year	<u><u>\$ 7,510,866,528</u></u>

NOTES TO FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of AGC Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Art Palmer, examiner for the Missouri Department of Insurance, participated in this examination. Donna K. Ferguson, FSA, MAAA, associated with Lewis & Ellis, Inc., reviewed the reserves and related actuarial items.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Walter A. Riesenberg, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Walter A. Riesenberg, CFE
Examiner-in-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this ____ day of _____.
My commission expires:

Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

J. Douglas Conley, CFE, FLMI, CIE, AIAF, ARE
Audit Manager, St. Louis
Missouri Department of Insurance